

UPPER CUMBERLAND
HUMAN RESOURCE AGENCY

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2012

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INTRODUCTORY SECTION

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Luke Collins, Executive Director

2011 – 2012 BOARD OF DIRECTORS

Board Directors

Michael Nesbitt, Smith County – Chairman ~ Dale Reagan, Clay County – Vice Chairman
Shelvy Linville, Macon County – Secretary ~ Curtis Hayes, Overton County - Treasurer

Executive Committee Members

Mike Gannon, Cannon County
Dale Reagan, Clay County
Kenneth Carey, Jr., Cumberland County
Mike Foster, DeKalb County
Frank Smith, Fentress County
John Cason, Jackson County
Shelvy Linville, Macon County
Ron Cyrus, Overton County
Johnie Neal, Pickett County
Kim Blaylock, Putnam County
Michael Nesbitt, Smith County
Herbert P. Davis, Van Buren County
John Pelham, Warren County
Herd Sullivan, White County
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State Senator Charlotte Burks, Monterey

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Mayor Phillip Gernt, Allardt
Mayor John R. Fox, Gainesboro
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Mayor Chris Thompson, Byrdstown
Mayor Matt Swallows, Cookeville
Mayor Jimmy Wheeler, South Carthage
Mayor Greg Wilson, Spencer
Mayor Norman Rone, McMinnville
Marvin Lusk, McMinnville
Mayor Jeff Young, Sparta

Other Members of the Board of Directors

Cannon County

Mayor Roger Turney
Kim Smithson
Daryl Fisher

Clay County

Jane Miller
Tonya Spears

Cumberland County

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Mayor Alfred Dwenger
Mike Phillips

DeKalb County

Mayor Taft Hendrixson
Mayor Maria Baker
Mayor Gerald Bailiff
Eddie Sutton

Fentress County

Mayor Gwenith Duncan
Pam Wright

Jackson County

Pat Forkum

Macon County

Mayor Bobby Etheridge
Billy Snyder

Overton County

Ray Ringley

Pickett County

Elese Richardson

Putnam County

Mayor Jeff Wilhite
Mayor Terry Foutch
Mayor Jeff Hicks
Dottie Larimore

Smith County

Mayor Sabra Hodge
Mayor Milton Gibbs
Bobby Peoples

Van Buren County

Don Hollingsworth

Warren County

Mayor J. W. Underhill
Mayor Kevin Lawrence
Mayor Sue Anderson
Royce Davenport

White County

Mayor Ray Spivey
Joe Wall

FINANCIAL SECTION



JOBE, HASTINGS & ASSOCIATES

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Upper Cumberland Human Resource Agency

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Upper Cumberland Human Resource Agency, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Cumberland Human Resource Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Upper Cumberland Human Resource Agency, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2013, on our consideration of the Upper Cumberland Human Resource Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 3 through 10 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Cumberland Human Resource Agency's financial statements as a whole. The introductory section and the schedule of indirect costs are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards, schedule of performance based financial assistance, and schedule of noncash assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the financial statements. The schedule of indirect costs, schedules of expenditures of federal and state awards, schedule of performance based financial assistance, and schedule of noncash assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
February 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Section of Upper Cumberland Human Resource Agency's annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2012. The Agency's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

FINANCIAL HIGHLIGHTS

Governmental Funds

- The Agency's assets exceed its liabilities by \$1,871,519.53 at year-end June 30, 2012. This compares to the previous year when assets exceeded liabilities by \$21,278.78.
- Assets consist of the following:
 - 1) Capital assets, net of accumulated depreciation, decreased by \$920,876.61 from \$3,284,610.97 in 2011 to \$2,363,734.36 in 2012.
 - 2) Cash increased by \$74,680.25 from \$806,404.48 in 2011 to \$881,084.73 in 2012.
 - 3) Receivables increased by \$715,412.29 from \$2,811,279.33 in 2011 to \$3,397,803.52 in 2012.
 - 4) Prepaid items increased by \$1,060.34 from \$6,516.51 in 2011 to \$7,576.85 in 2012.
 - 5) Inventories increased by \$239,893.04 from \$50,750.88 in 2011 to \$290,643.92 in 2012. This increase was due to the agency booking commodities inventory.
- The Agency's governmental funds reported a total ending fund balance of \$1,871,519.53 for the year ended June 30, 2012. This compares to the prior year fund balance of \$21,278.78 an increase of \$1,850,240.75. Of the fund balance, \$95,776.20 is assigned to the Nutrition program and \$704,820.36 is restricted for Transportation. Of this increase in fund balance \$966,356.09 was due to accrued sick leave being moved from a liability account and commodities inventory being recorded.
- Total liabilities for the agency decreased by \$80,196.05 from \$3,653,672.42 in 2011 to \$3,573,476.37 in 2012.
- There was a decrease in reported revenues of \$6,408,355.75 from \$30,498,231.33 in 2011 to \$24,089,875.58 in 2012. The decrease in revenues was related to the expiration of the stimulus funding (ARRA).
- Transfers – The agency transferred \$173,995.66 of local funds from the general funds to cover losses and negative cash flow of the Proprietary Fund. Also the agency transferred \$1,090,092.89 from the special revenue fund to the general fund.

- The major sources of programs revenues:

Functions/Programs	Charges for Services	Operating Grants and Contributions	Local and Donations
LIHEAP		\$3,795,873.10	
Transportation	\$2,803,616.80	\$4,074,366.96	\$203,571.59
WIA		\$2,265,490.53	\$3,200.00
Nutrition	\$821,422.45	\$1,137,325.43	
Residential Centers		\$2,158,574.82	\$265,807.79
Commodities		\$445,849.68	
Other Community Services	\$306,488.47	\$4,276,892.02	\$109,567.66

- The general revenues are made up of state appropriations, county and city assessments, interest income and gain on sale of fixed assets.
- There was a decrease of \$7,854,122.58 in expenditures from \$30,835,947.32 in 2011 to \$22,981,824.74 in 2012. . The decrease in expenditures was related to the expiration of the stimulus funding (ARRA).
- Program expenses by function:

Functions/Programs	Expenditures
General Government	\$1,277,001.19
LIHEAP	\$3,798,561.07
Transportation	\$6,329,959.87
WIA	\$2,250,595.31
Nutrition	\$1,877,464.43
Residential	\$2,162,792.34
Commodities	\$479,200.64
Other Community Services	\$4,636,135.08

Proprietary Funds

- The Agency liabilities exceed its assets by \$249,442.44 for the fiscal year reported. This compares to the previous year when liabilities exceeded assets by \$225,807.88.
- Net assets consist of the following:
 - 1) Capital assets, net of accumulated depreciation, decreased by \$146,219.97 from \$1,478,974.46 in 2011 to \$1,332,754.49 in 2012.
 - 2) There was a \$701.00 decrease in petty cash. The balance in 2011 was \$1,000.00 and the balance in 2012 was \$299.00.
 - 3) Receivables decreased by \$24,200.03 from \$47,615.69 in 2011 to \$23,415.66 in 2012.

- The Agency's proprietary fund reported net assets of (\$249,442.44) for the year ended June 30, 2012. This compares to the prior year net assets of (\$225,807.88), showing an increase of \$23,634.56.
- Total liabilities of the Agency's proprietary fund decreased \$149,903.10 from \$1,755,814.69 to \$1,605,911.59 for the year ended June 30, 2012.
- The proprietary fund revenues (rental and sales) decreased from \$608,997.69 to \$440,586.04.
- The proprietary fund's expenses decreased due to the agency implementing new procedures to cut cost in these hard economic times.

OVERVIEW OF FINANCIAL STATEMENTS

Managements Discussion and Analysis introduces the Agency's basic financial statements. The basic financial statements include: government wide financial statements; fund financial statements; and notes to the financial statements. The Agency also includes in this report additional information to supplement the financial statements.

Government-wide Financial Statements

The Agency's annual report includes two government-wide financial statements; the Statement of Net Assets and the Statement of Activities. These statements report, on an accrual basis, all assets and liabilities and the changes in them.

The first of these government-wide financial statements is the Statement of Net Assets. This is the Agency-wide statement of financial position presenting information that includes all of the Agency's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency as a whole is improving or deteriorating. Evaluation of the overall health of the Agency would extend to other non-financial factors in addition to the financial information provided in this report.

The second government-wide financial statement is the Statement of Activities, which reports how the Agency's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Agency's distinct activities or functions on revenues provided by the Agency's local governments and grantors.

The government-wide financial statements are designed to distinguish between governmental activities supported mostly by grants and assessments and business-type activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Agency uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Agency's funds rather than the Agency as a whole. The agency uses two types of funds: Governmental funds and Proprietary funds. Governmental funds are reported in two fund categories, General Fund and Special Revenue Fund. The general fund is the chief operating fund of the agency, the special revenue fund accounts for grants. The proprietary fund accounts for the operation of the Lakeside Resort and Educational Complex.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Agency's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of the short-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

Proprietary funds account for fees charged to customers for rentals and services. Proprietary funds, like the government wide statements, provide both long-term and short-term financial information. The proprietary fund works similar to a business but provides more detail and additional information such as cash flows.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. They provide explanation of the financial statements and provide more detailed data.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements.

Financial Analysis of the Agency as a Whole

Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Agency as a whole.

The Agency's net assets increased \$439,758.63 during the fiscal year from \$2,845,717.89 in 2011 to \$3,285,476.53 in 2012.

Since the Upper Cumberland Human Resource Agency continues to derive the vast majority of its funding from the State and Federal governments, and those funds appear to be stable at the present time, the overall financial outlook of the Agency can be characterized as "good." Despite that fact, UCHRA continues to seek and implement cost control measures as funding from those sources does not always increase on an annual basis in keeping up with the rate of inflation (i.e., labor, employee benefit, and other operating costs).

For additional information to changes in capital assets see Note C of the financial statements.

Financial Analysis of the Agency's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable resources focus. This information is useful in assessing resources available at year-end in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$1,871,519.53. Of this year-end total, \$85,990.03 is unreserved, indicating availability for continuing Agency requirements. The fund balance significantly increased by \$675,712.17 because the sick pay balance was moved from a liability account to fund balance (assigned to retiree account) and was increased by \$290,643.92 when commodities revenues, expenditures, and inventory was included in the financial statements and fund balance (non-spendable inventory). The remaining fund balance is comprised of \$95,776.20 which is assigned to the Nutrition program, \$704,820.36 which is restricted for Transportation, \$10,000.00 committed for the purchase of residential vehicles, and \$7,576.85 of prepaid items in non-spendable.

Proprietary Funds

As discussed, proprietary funds are reported on an “economic resources” measurement focus. Proprietary funds reported a total ending retained earnings of (\$249,442.44) at June 30, 2012. The Upper Cumberland Human Resource Agency has developed plans and secured funding to expand services provided through its proprietary operations. Additional revenues derived from these increased services should be sufficient in the short-term to reduce the negative cash flow of the proprietary operations and in the long-term to make those operations income-producing endeavors.

Capital Assets and Debt Administration

Capital Assets

The Agency’s capital assets \$10,186,719.33 net of accumulated depreciation (\$6,490,230.48) amounted to \$3,696,488.85 as compared to \$4,763,585.43(net of depreciation) at June 30, 2011. There were capital outlays of \$50,825.11 and deletions of \$577,921.99 during the period ending June 30, 2012. Depreciation in the current period was \$1,061,953.80. There were no additions to capital leases and debt repayments of \$103,689.96, which resulted in a principal balance of \$130,674.02.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Upper Cumberland Human Resource Agency is a hybrid organization. First, UCHRA is a governmental entity, having been created by the “Human Resource Act” enacted in 1973 by the Tennessee General Assembly. Then, in 2002 the Agency was granted 501 (c) (3) status by the Internal Revenue Service. UCHRA contracts primarily with the State of Tennessee, and to a lesser degree directly with the Federal government, to administer certain programs on their behalf. However, in excess of ninety percent (90%) of the funds contracted to UCHRA through the State are federal funds. To the extent that economic factors affect the Federal and State governments UCHRA’s contracts and funding may be positively or negatively impacted.

From one perspective, that of need for the services it provides, the outlook for UCHRA should be positive. Due to the still struggling economy and high unemployment there are many low-income individuals and households in the Upper Cumberland area who would greatly benefit from services UCHRA provides: employment and training, in-home services (homemaker and personal care), nutrition (congregate and home delivered meals, food vouchers for emergency situations, and commodity distributions), energy assistance in paying utility bills and weatherizing homes in order to conserve precious energy dollars, and emergency assistance in making rent or mortgage payments, and

transportation services. With present funding most UCHRA programs cannot meet the demand for these services.

Most of the federal funds administered by UCHRA are classified as “discretionary spending”, which is that part of the U. S. Federal Budget negotiated between the President and Congress each year as part of the budget process. Discretionary spending includes everything that is not in the mandatory budget, which are programs required by law to provide certain benefits, such as Social Security and Medicare.

Discretionary spending in the FY 2013 budget was slashed to \$1.264 trillion (from \$1.319 spent in FY 2012); however, it was later reduce the budget to \$1.2 trillion, mandated by the Congressional deficit reduction committee to end the crisis over raising the debt that erupted in the summer of 2011. Health and Human Services, which funds several UCHRA programs (CSBG, LIHEAP, and WAP), were reduced by more than 10%.

Then good news, however, is that on July 6, 2013, President Obama signed into law HR 4348, Moving Ahead for Progress in the 21st Century (MAP-21). Against what seemed to insurmountable odds, MAP-21 emerged with two year of funding with increases in overall transit investment for both 2013 and 2014 (through September 30, 2014). Part of the positive impact of this legislation on Upper Cumberland Area Rural Transit System (UCARTS) is that the total federal investment in the Section 5311 rural transit program will grow by 30 percent during the two-year period.

The Budget Control Act of 2011 provided for raising the nation’s debt limit by \$2.1 trillion, in return for an equivalent level of spending cuts or other deficit reduction over 10 years, with the initial \$917 billion in deficit reduction through statutory spending gaps through Fiscal Year 2021. The remaining \$1.2 trillion in deficit deduction was left up to a bipartisan panel in Congress, known as the “Super Committee,” that would make recommendations for Congress to approve or disapprove. If the Super Committee failed to act on a package of targeted cuts, a backup enforcement mechanism would kick in, known as sequestration, under which the \$1.2 trillion in savings would be achieved though automatic cuts, with half the reductions to come from defense. The targeting of the automatic cuts was intended to force both political parties and the President to compromise. Unfortunately, the Super Committee failed to reach agreement.

The Sequestration Transparency Act of 2012 (STA) requires the President to submit to Congress are report on the potential sequestration triggered by the failure of the Joint Select Committee on Deficit Reduction to propose, and Congress to enact, a plan to reduce the deficit by \$1.2 trillion, as required by the Budget Deficit Control Act of 2011. In response the Office of Management and Budget (OMB) issued a report based on assumptions required by the STA. The report provides Congress with a breakdown of exempt and non-exempt accounts, an explanation of the calculations in the report, and additional information on the potential implementation of the sequestration. Unless member of Congress compromise on a plan, sequestration will take effect on January 2, 2013.

Additionally, at the end of this year several major budget items are scheduled to expire, including an extension of the Bush tax cuts, an extension of the stimulus payroll tax cuts, and an extension of emergency unemployment benefits. These budget issues, coupled with the “sequester” cuts due to take effect, have led to the reference to a “fiscal cliff.” If all of these provisions are allowed to hit, the impact on the economy will be substantial.

There is no bigger issue on people’s minds, especially those who work in the social services field, than what is going to happen with the congressional fiscal cliff negotiations. Things could spin out of control if bipartisanship breaks down. In any event the question remains, what will be the consequences for domestic discretionary programs? Until the negotiations are complete it is impossible to answer that question.

Funding appears to be fairly stable for other UCHRA programs that operate primarily with State funding, and/or on a fee-for-service basis, including Adult Community Corrections, Community Intervention for Juvenile Offenders, and Residential Services. The In-home Services Programs, that include CHOICES (Medicaid Waiver) and Options for Community Living, have been reorganized and are currently operating in the black.

In the final analysis, the outlook for the Upper Cumberland Human Resource Agency’s FY 2013 budget and programs, both directly and indirectly, rests primarily in the hands of Congress and, to a lesser degree, the Tennessee State Legislature. Significant funding reductions for UCHRA would hamper its ability to advance toward its ultimate goal of moving people from dependency to independency. One on-going alternative being pursued by UCHRA is seeking funding from non-governmental sources, such as foundations, charities, and local organizations. The agency employs a grant writer who searches for, prepares, and submits grant applications to both governmental and non-governmental sources.

Contacting the Agency’s Financial Management

This financial report is designed to provide a general overview of the Agency’s finances, comply with finance-related laws and regulations and demonstrate the Agency’s commitment to public accountability. If you have any questions about this report or would like additional information, contact the Agency’s Executive Director at 580 South Jefferson Avenue, Suite B, Cookeville, TN 38501.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Statement of Net Assets

June 30, 2012

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 881,084.73	\$ 299.00	\$ 881,383.73
Receivables	3,397,803.52	23,415.66	3,421,219.18
Prepaid items	7,576.85		7,576.85
Inventories	290,643.92		290,643.92
Capital assets -			
Land and construction in progress	250,600.00		250,600.00
Other capital assets, net of depreciation	2,113,134.36	1,332,754.49	3,445,888.85
Total Assets	\$ <u>6,940,843.38</u>	\$ <u>1,356,469.15</u>	\$ <u>8,297,312.53</u>
<u>LIABILITIES</u>			
Line of credit	\$ 1,816,383.65		\$ 1,816,383.65
Accounts payable	470,113.30	\$ 11,791.39	481,904.69
Due to grantors	1,369.50		1,369.50
Accrued liabilities	371,125.55	3,156.84	374,282.39
Unearned revenue	46,597.49		46,597.49
Accrued interest payable		50,373.52	50,373.52
Long-term liabilities -			
Due within one year	82,460.35	63,443.04	145,903.39
Due in more than one year	617,874.58	1,477,146.80	2,095,021.38
Total Liabilities	\$ <u>3,405,924.42</u>	\$ <u>1,605,911.59</u>	\$ <u>5,011,836.01</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 2,233,060.34	\$ (207,835.35)	\$ 2,025,224.99
Restricted for transportation programs	704,820.36		704,820.36
Unrestricted	597,038.26	(41,607.09)	555,431.17
Total Net Assets	\$ <u><u>3,534,918.96</u></u>	\$ <u><u>(249,442.44)</u></u>	\$ <u><u>3,285,476.52</u></u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses		Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Direct	Indirect	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Local and Donations	Net Governmental Activities	Net Business-type Activities	Total
Governmental activities -									
Agency operations and administration	\$ 3,282,072.83	\$ (1,790,972.28)	\$ 1,018,542.15				\$ (472,558.40)		\$ (472,558.40)
LIHEAP programs	3,780,449.00	18,112.07		\$ 3,795,873.10			(2,687.97)		(2,687.97)
Transportation programs	6,204,822.34	565,704.03	2,803,616.80	4,074,366.96		\$ 203,571.59	311,028.98		311,028.98
WIA programs	2,074,490.84	178,372.17		2,265,490.53		3,200.00	15,827.52		15,827.52
Nutrition programs	1,804,490.28	115,782.78	821,422.45	1,137,325.43			38,474.82		38,474.82
Residential programs	1,956,375.90	229,242.76		2,158,574.82		265,807.79	238,763.95		238,763.95
Other community services programs	4,175,225.95	664,158.57	306,488.47	4,276,892.02		109,567.66	(146,436.37)		(146,436.37)
Commodities	479,200.64			445,849.68			(33,350.96)		(33,350.96)
Total governmental activities	\$ <u>23,757,127.78</u>	\$ <u>(19,599.90)</u>	\$ <u>4,950,069.87</u>	\$ <u>18,154,372.54</u>		\$ <u>582,147.04</u>	\$ <u>(50,938.43)</u>		\$ <u>(50,938.43)</u>
Business-type activities -									
Lakeside resort	\$ <u>618,616.66</u>	\$ <u>19,599.90</u>	\$ <u>440,586.04</u>					\$ <u>(197,630.52)</u>	\$ <u>(197,630.52)</u>
Total primary government	\$ <u><u>24,375,744.44</u></u>	\$ <u><u>-</u></u>	\$ <u><u>5,390,655.91</u></u>	\$ <u><u>18,154,372.54</u></u>		\$ <u><u>582,147.04</u></u>	\$ <u><u>(50,938.43)</u></u>	\$ <u><u>(197,630.52)</u></u>	\$ <u><u>(248,568.95)</u></u>
General Revenues -									
Grants and contributions not restricted to specific programs							\$ 390,080.07		\$ 390,080.07
Interest							13,206.06		13,206.06
Gain on sale of fixed assets							41,876.14		41,876.14
Transfer to support operations of Lakeside							(173,995.66)	\$ 173,995.66	
Total general revenues and transfers							\$ <u>271,166.61</u>	\$ <u>173,995.66</u>	\$ <u>445,162.27</u>
Change in net assets							\$ <u>220,228.18</u>	\$ <u>(23,634.86)</u>	\$ <u>196,593.32</u>
Net assets - beginning, as previously reported							\$ 3,071,525.77	\$ (225,807.58)	\$ 2,845,718.19
Prior period adjustments							243,165.01		243,165.01
Net assets - beginning, as restated							\$ <u>3,314,690.78</u>	\$ <u>(225,807.58)</u>	\$ <u>3,088,883.20</u>
Net assets - ending							\$ <u><u>3,534,918.96</u></u>	\$ <u><u>(249,442.44)</u></u>	\$ <u><u>3,285,476.52</u></u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Balance Sheet
Governmental Funds

June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 860,717.91	\$ 19,766.82	\$ 880,484.73
Cash on hand		600.00	600.00
Due from grantors		2,648,800.50	2,648,800.50
Due from performance based grantors		22,521.14	22,521.14
Due from other funds	867,886.88		867,886.88
Other receivables	180,467.95	546,013.93	726,481.88
Prepaid items	7,576.85		7,576.85
Inventories		290,643.92	290,643.92
Total Assets	\$ <u>1,916,649.59</u>	\$ <u>3,528,346.31</u>	\$ <u>5,444,995.90</u>
<u>LIABILITIES</u>			
Line of credit		\$ 1,816,383.65	\$ 1,816,383.65
Accounts payable	\$ 89,029.75	381,083.55	470,113.30
Accrued liabilities	174,615.80	196,509.75	371,125.55
Deferred revenue	25,879.49	20,718.00	46,597.49
Due to other funds		867,886.88	867,886.88
Due to grantors		1,369.50	1,369.50
Total Liabilities	\$ <u>289,525.04</u>	\$ <u>3,283,951.33</u>	\$ <u>3,573,476.37</u>
<u>FUND BALANCES</u>			
Nonspendable			
Inventory		\$ 290,643.92	\$ 290,643.92
Prepaid items	\$ 7,576.85		7,576.85
Restricted for -			
Transportation programs	704,820.36		704,820.36
Committed for -			
Residential vehicle purchase		10,000.00	10,000.00
Assigned to -			
Nutrition programs	95,776.20		95,776.20
Retiree account	675,712.17		675,712.17
Unassigned	143,238.97	(56,248.94)	86,990.03
Total Fund Balances	\$ <u>1,627,124.55</u>	\$ <u>244,394.98</u>	\$ <u>1,871,519.53</u>
Total Liabilities and Fund Balances	\$ <u>1,916,649.59</u>	\$ <u>3,528,346.31</u>	\$ <u>5,444,995.90</u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities**

June 30, 2012

Total Governmental Fund Balances	\$ 1,871,519.53
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,363,734.36
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital leases	(130,674.02)
Compensated absences	(379,225.91)
OPEB obligation	(190,435.00)
Net Assets of Governmental Activities	<u>\$ 3,534,918.96</u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues-			
Grantor contributions		\$ 18,024,103.48	\$ 18,024,103.48
Fees for service		665,639.13	665,639.13
State and local contributions	\$ 988,660.15	582,147.03	1,570,807.18
Performance based revenue		130,269.06	130,269.06
Contract revenue	333,539.41	3,004,290.11	3,337,829.52
Program income	86,422.66	261,598.49	348,021.15
Interest revenue	13,206.06		13,206.06
Total Revenues	\$ <u>1,421,828.28</u>	\$ <u>22,668,047.30</u>	\$ <u>24,089,875.58</u>
Expenditures-			
Current -			
General government	\$ 1,277,001.19		\$ 1,277,001.19
LIHEAP programs		\$ 3,798,561.07	3,798,561.07
Transportation programs		6,329,959.87	6,329,959.87
WIA programs		2,250,595.31	2,250,595.31
Nutrition programs		1,877,464.43	1,877,464.43
Residential programs		2,162,792.34	2,162,792.34
Commodities		479,200.64	479,200.64
Other community services programs		4,636,135.08	4,636,135.08
Capital outlay		50,825.11	50,825.11
Debt service			
Principal	57,606.11	46,083.85	103,689.96
Interest	9,881.13	5,718.61	15,599.74
Total Expenditures	\$ <u>1,344,488.43</u>	\$ <u>21,637,336.31</u>	\$ <u>22,981,824.74</u>
Excess (deficiency) of Revenues over (under) Expenditures	\$ <u>77,339.85</u>	\$ <u>1,030,710.99</u>	\$ <u>1,108,050.84</u>
Other Financing Sources (Uses) -			
Proceeds from sale of fixed assets	\$ 71,813.09	\$ 26,030.94	\$ 97,844.03
Transfer from special revenue fund	1,090,092.89		1,090,092.89
Transfer to general fund		(1,090,092.89)	(1,090,092.89)
Transfer to enterprise fund	(173,995.66)		(173,995.66)
Total Other Financing Sources (Uses)	\$ <u>987,910.32</u>	\$ <u>(1,064,061.95)</u>	\$ <u>(76,151.63)</u>
Net change in Fund Balances	\$ <u>1,065,250.17</u>	\$ <u>(33,350.96)</u>	\$ <u>1,031,899.21</u>
Fund Balances at beginning of year, as previously stated	\$ 21,278.78		\$ 21,278.78
Prior period adjustment	540,595.60	277,745.94	818,341.54
Fund Balances at beginning of year, restated	\$ <u>561,874.38</u>	\$ <u>277,745.94</u>	\$ <u>839,620.32</u>
Fund Balances at end of year	\$ <u>1,627,124.55</u>	\$ <u>244,394.98</u>	\$ <u>1,871,519.53</u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 1,031,899.21
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation:

Capital outlay	50,825.11
Depreciation expense	(915,733.83)

The net effect of various transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets:

Net book value of assets sold	(55,967.89)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.

	103,689.96
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	51,830.62
OPEB obligation	(46,315.00)

Change in Net Assets of Governmental Activities	\$ <u>220,228.18</u>
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See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Balance Sheet
Proprietary Fund

June 30, 2012

**Business-Type
Activities**
**Lakeside Resort
and Educational
Complex**

ASSETS

Current Assets -	
Cash	\$ 299.00
Other receivables	23,415.66
Total Current Assets	\$ 23,714.66
Capital Assets -	
Other capital assets, net of depreciation	\$ 1,332,754.49
Total Noncurrent Assets	\$ 1,332,754.49
Total Assets	\$ 1,356,469.15

LIABILITIES AND NET ASSETS

Current Liabilities -	
Accounts payable	\$ 11,791.39
Accrued interest payable	50,373.52
Accrued liabilities	3,156.84
Loans payable - current portion	63,443.04
Total Current Liabilities	\$ 128,764.79
Noncurrent Liabilities -	
Loans payable	\$ 1,477,146.80
Total Noncurrent Liabilities	\$ 1,477,146.80
Total Liabilities	\$ 1,605,911.59
Net Assets -	
Invested in capital assets, net of related debt	\$ (207,835.35)
Unrestricted	(41,607.09)
Total Net Assets	\$ (249,442.44)
Total Liabilities and Net Assets	\$ 1,356,469.15

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund

Year Ended June 30, 2012

	<u>Business-Type Activities Lakeside Resort and Educational Complex</u>
Operating Revenues -	
Rental and sales	\$ 440,586.04
Total operating revenues	<u>\$ 440,586.04</u>
Operating Expenses -	
Depreciation	\$ 146,219.97
Salaries	77,558.30
Utilities	65,793.32
Repairs and maintenance	48,955.30
Sales tax	42,332.57
Fringe benefits	33,076.81
Insurance	28,277.09
Telephone	26,637.20
Contract services	25,054.67
Indirect costs	19,599.90
Supplies	12,309.00
Advertising	9,372.00
Bank charges	8,023.40
Vehicle operations	6,846.65
Other	4,632.09
Equipment rental and leasing	2,131.90
Professional services	1,591.50
Raw food	1,393.20
Audit	885.53
Postage	370.57
Dues and subscriptions	270.00
Total operating expenses	<u>\$ 561,330.97</u>
Operating Income (Loss)	<u>\$ (120,744.93)</u>
Non-operating Revenues (Expenses) -	
Interest expense	\$ (76,885.59)
Total non-operating revenues (expenses)	<u>\$ (76,885.59)</u>
Income (Loss) Before Transfer	\$ (197,630.52)
Transfer from general fund	<u>173,995.66</u>
Change in Net Assets	\$ (23,634.86)
Net Assets at beginning of year	<u>(225,807.58)</u>
Net Assets at end of year	<u><u>\$ (249,442.44)</u></u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Statement of Cash Flows
Proprietary Fund

Year Ended June 30, 2012

	<u>Business-Type Activities Lakeside Resort and Educational Complex</u>
Cash Flows from Operating Activities -	
Cash received from customers	\$ 464,786.07
Cash payments to suppliers	(325,402.37)
Cash payments to employees	(111,075.66)
Net Cash Provided (Used) by Operating Activities	<u>\$ 28,308.04</u>
Cash Flows from Noncapital Financing Activities -	
Transfers in	\$ 173,995.66
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ 173,995.66</u>
Cash Flows from Capital and Related Financing Activities -	
Principal paid on loans	\$ (52,468.63)
Interest paid on loans	(79,341.76)
Principal paid on capital leases	(71,194.31)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (203,004.70)</u>
Net Increase (Decrease) in cash	\$ (701.00)
Cash at beginning of year	1,000.00
Cash at end of year	<u><u>\$ 299.00</u></u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (120,744.93)
Adjustments to reconcile operating income (loss) to net	
cash provided (used) by operating activities	
Depreciation	146,219.97
Changes in assets and liabilities -	
(Increase) decrease in other receivables	24,200.03
(Increase) decrease in inventories	2,416.66
Increase (decrease) in accounts payable	(23,343.14)
Increase (decrease) in accrued liabilities	(440.55)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 28,308.04</u></u>

See notes to financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Upper Cumberland Human Resource Agency (Agency) was established in 1973 in accordance with Title 13, Chapter 26, as amended, of Tennessee Code Annotated. This legislation provides a regional system to deliver human resource agency programs in the state's counties and cities. It is governed by a member governing board and a member policy council. The board consists of the county executives and mayors within the area served by the agency, one state senator and one state representative whose districts lie wholly or in part within the area served by the agency, and members appointed by the county executives - one from each county served by the agency. The policy council consists of two representatives from each county served and two legislators. For financial reporting purposes, the Upper Cumberland Human Resource Agency includes all fund types and account groups over which the Board of Directors is financially accountable.

The accounting and reporting policies of the Agency relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Agency has elected to apply to its business-type activities and enterprise fund only statements and accounting principles issued by the Financial Accounting Standards Board issued prior to November 30, 1989, unless they conflict with GASB statements. The GASB periodically updates its codification of the existing Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies of the Agency are described below.

The Agency, for financial purposes, includes all the funds relevant to the operations of the Upper Cumberland Human Resource Agency (the primary government). The Agency is also required to include in its financial statements those separately administered organizations (component units) with which the Agency has significant operational or financial relationships. The criteria for including organizations as component units within the Agency's reporting entity include whether the organization is legally separate and whether the Agency holds the corporate powers, whether the Agency appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the Agency. Based on the foregoing criteria, the Upper Cumberland Human Resource Agency has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by assessments and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

State and federal grants and contributions, contracted revenues, fees for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The financial transactions of the Agency are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The Agency reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the Agency. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund - The special revenue fund is used to account for resources received under grant and contract agreements.

The Agency reports the following major proprietary fund:

Proprietary Fund - The Proprietary Fund accounts for financial activities for the Lakeside Resort and Educational Complex. The fund uses the accrual basis of accounting and is accounted for using the economic resources measurement focus. The basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus the agency applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations and Accounts research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. The Agency had interfund transfers of \$1,090,092.89 that represented revenues in excess of expenditures in the special revenue fund that were transferred to the general fund. The Agency also had interfund transfers of \$173,995.66 that represented support of operations provided to the enterprise fund from the general fund. Interfund transfers are reported as other financing sources and uses in governmental funds and after non-operating revenues and expenses in the enterprise fund.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing sales and services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash consists of cash-on-hand and on-deposit with financial institutions. For purposes of reporting cash on the Statement of Net Assets, the Agency considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Cash Flows as "Cash". At June 30, 2012, the Agency had no cash equivalents.

Inventories - The consumption method is used to account for inventories. Under the consumption method, an expenditure is recognized when inventory is consumed.

Capital Assets and Depreciation - Capital assets, which include property, buildings, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Depreciation of capital assets is computed and recorded by the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	40 years
Leasehold improvements	15-24 years
Vehicles	5 years
Office and computer equipment	5 years

Compensated Absences - Agency employees are paid for vacation and absences due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds are recorded as expenditures in the period they are used and considered payable from current financial resources. Vacation leave is based on employment date, and unused vacation leave is converted into sick leave at the end of the fiscal year-end.

The Agency's policies allow an employee who has been employed with the Agency for twenty consecutive years and is 59½ to receive a payment of accumulated sick leave up to six months upon retirement. The estimated value of accumulated benefits earned by these employees, which may be used in subsequent years and paid upon retirement, is recorded as long-term debt in the government-wide statements.

Long-term Debt - In government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund balance - Governmental funds utilize a fund balance presentation of equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable - fund balances that cannot be spent because they are either not in a spendable form (such as inventory or prepaid items) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted - fund balances with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed - fund balances that can be used only for specific purposes imposed by a formal action of the government's highest level of decision-making authority. The executive committee of the board of directors is the highest level of decision-making authority for the Agency that can, by passing a motion prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the motion remains in place until a similar action is taken (passing another motion) to remove or revise the limitation.

Assigned - fund balances are intended to be used by the Agency for specific purposes but do not meet the classification as committed. The limitation can be imposed by a designee of the Board of Directors.

Unassigned - fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in the Special Revenue Fund represents excess expenditures incurred over the amounts nonspendable, restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the Agency's policy to use restricted fund balance first, then unrestricted fund balance. The Agency has not adopted a formal policy for its use of unrestricted fund balance amounts. However, when expenditures are incurred for purposes for which amounts in unrestricted fund balance classifications can be used, it considers that committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts.

Restricted Net Assets - For the government-wide financial statements, net assets are reported as restricted when constraints placed on net assets are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Estimates - Management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Prepaid items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Indirect costs - Indirect costs are allocated to the functions of the Agency based on the ratio of the individual direct program salaries to total direct program salaries applied to the administrative costs.

Budgets and Budgetary Accounting - General governmental revenue and expenditures are not required to be controlled by a formal integrated budgetary accounting system; therefore no budgetary information is presented.

Reclassifications - Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Note B - DEPOSITS AND INVESTMENTS

The Agency does not have a formal policy regarding the types of investments authorized. However, state statutes authorize the Agency to invest operating funds in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note B - DEPOSITS AND INVESTMENTS (continued)

Custodial credit risk - deposits and investments - This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Agency does not have a formal deposit and investment policy for custodial credit risk. As of June 30, 2012, the carrying amount of the Agency's deposits was \$880,484.73 and the bank balance was \$1,143,785.20. At year end, the Agency's bank balances were covered by federal depository insurance or collateralized with securities held by the pledging financial institutions trust department or agent in the Agency's name.

The carrying amount of the Agency's deposits is classified as follows on the Statement of Net Assets:

Cash	\$ 881,383.73
Less: petty cash	(899.00)
Total	<u>\$ 880,484.73</u>

Note C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<u>Governmental activities -</u>				
Capital Assets not being depreciated -				
Land	\$ 250,600.00			\$ 250,600.00
Subtotal	<u>\$ 250,600.00</u>			<u>\$ 250,600.00</u>
Capital assets being depreciated -				
Buildings	\$ 286,203.85			\$ 286,203.85
Equipment	1,663,263.84	\$ 24,617.11	\$ (112,814.04)	1,575,066.91
Vehicles	5,446,665.38	26,208.00	(460,122.99)	5,012,750.39
Subtotal	<u>\$ 7,396,133.07</u>	<u>\$ 50,825.11</u>	<u>\$ (572,937.03)</u>	<u>\$ 6,874,021.15</u>
Less accumulated depreciation for:				
Buildings	\$ (145,201.95)	\$ (7,155.10)		\$ (152,357.05)
Equipment	(1,185,103.46)	(179,110.43)	\$ 110,428.52	(1,253,785.37)
Vehicles	(3,031,816.69)	(729,468.30)	406,540.62	(3,354,744.37)
Subtotal	<u>\$ (4,362,122.10)</u>	<u>\$ (915,733.83)</u>	<u>\$ 516,969.14</u>	<u>\$ (4,760,886.79)</u>
Capital assets, being depreciated, net	<u>\$ 3,034,010.97</u>	<u>\$ (864,908.72)</u>	<u>\$ (55,967.89)</u>	<u>\$ 2,113,134.36</u>
Capital assets, net	<u>\$ 3,284,610.97</u>	<u>\$ (864,908.72)</u>	<u>\$ (55,967.89)</u>	<u>\$ 2,363,734.36</u>

Depreciation expense was charged to the functions of the primary government as follows:

Agency operations and administration	\$ 209,733.85
Transportation	440,566.50
WIA	2,267.70
Nutrition	42,808.63
Residential	17,107.71
Other community services	203,249.44
Total governmental activities depreciation expense	<u>\$ 915,733.83</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note C - CAPITAL ASSETS (continued)

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<u>Business-type activities -</u>				
Capital assets being depreciated -				
Leasehold improvements	\$ 2,640,386.02			\$ 2,640,386.02
Land improvements	84,453.50			84,453.50
Equipment	326,116.62		\$ (4,984.96)	321,131.66
Vehicles	16,127.00			16,127.00
Subtotal	\$ 3,067,083.14		\$ (4,984.96)	\$ 3,062,098.18
Less accumulated depreciation for:				
Leasehold improvements	\$ (1,168,744.90)	\$ (142,559.24)		\$ (1,311,304.15)
Land improvements	(84,453.50)			(84,453.50)
Equipment	(319,053.27)	(3,390.73)	\$ 4,984.96	(317,459.04)
Vehicles	(15,857.00)	(270.00)		(16,127.00)
Subtotal	\$ (1,588,108.67)	\$ (146,219.97)	\$ 4,984.96	\$ (1,729,343.69)
Capital assets, net	\$ 1,478,974.46	\$ (146,219.97)	\$ -	\$ 1,332,754.49

Note D - LONG-TERM LIABILITIES

A summary of changes in the Agency's governmental activities long-term debt transactions for the year ended June 30, 2012, are as follows:

	Balance July 1, 2011	Prior Period Adjustment	Balance July 1, 2011 As restated		
Governmental Activities -					
Capital leases	\$ 234,363.98		\$ 234,363.98		
Compensated absences		\$ 431,056.53	431,056.53		
Net OPEB obligation		144,120.00	144,120.00		
	\$ 234,363.98	\$ 575,176.53	\$ 809,540.51		
	Balance July 1, 2011 As restated	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities -					
Capital leases	\$ 234,363.98		\$ (103,689.96)	\$ 130,674.02	\$ 82,460.35
Compensated absences	431,056.53	\$ 46,800.68	(98,631.30)	379,225.91	
Net OPEB obligation	144,120.00	46,315.00		190,435.00	
	\$ 809,540.51	\$ 93,115.68	\$ (202,321.26)	\$ 700,334.93	\$ 82,460.35

The following is a schedule by years of future minimum payments required under capital leases that have initial or remaining non-cancellable lease terms exceeding one year as of June 30, 2012:

Year ended June 30,	Governmental Activities	
	Principal	Interest
2013	\$ 82,460.35	\$ 6,966.18
2014	48,213.67	1,194.36
Totals	\$ 130,674.02	\$ 8,160.54

The asset balance associated with the above capital leases is \$266,903.90 less accumulated amortization of \$135,907.34.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note D - LONG-TERM LIABILITIES (continued)

A summary of changes in the Agency's business-type activities long-term debt transactions for the year ended June 30, 2012, are as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Business-type Activities -					
Capital leases	\$ 71,194.31		\$ (71,194.31)		
Rural Development Loans	<u>1,593,058.47</u>		<u>(52,468.63)</u>	<u>\$ 1,540,589.84</u>	<u>\$ 63,443.04</u>
	<u>\$ 1,664,252.78</u>	<u>\$ -</u>	<u>\$ (123,662.94)</u>	<u>\$ 1,540,589.84</u>	<u>\$ 63,443.04</u>

Lakeside Resort debt service requirements to maturity are as follows:

Year Ending June 30,	Business Type Activities	
	Principal	Interest
2013	\$ 63,443.04	\$ 64,736.96
2014	66,122.60	62,057.39
2015	68,915.36	59,264.63
2016	71,826.10	56,353.36
2017	74,859.78	53,320.21
2018-2022	424,550.28	216,349.72
2023-2027	522,097.30	118,802.70
2028-2029	<u>248,775.38</u>	<u>15,506.92</u>
Totals	<u>\$ 1,540,589.84</u>	<u>\$ 646,391.89</u>

Rural Development Loan - The enterprise fund has two Rural Development loans used to make improvements and purchase equipment at the Lakeside Resort. The first loan is a 25 year note entered into on October 29, 2003 for \$1,500,000 with an interest rate of 4.25%. The loan requires 24 annual payments for principal and interest in the amount of \$100,920.00, with the final payment to include the entire remaining principal. The second loan is a 23 year note entered into on August 18, 2005 for \$400,000 with an interest rate of 4.125%. The loan requires 22 annual payments for principal and interest in the amount of \$27,260.00, with the final payment to include the entire remaining principal. The Agency has pledged its leasehold interest in approximately 135 acres of land and approximately 5 acres of water, all of the equipment to be purchased with the loan funds and all rents, revenues, fees, charges, membership subscriptions, assessments, all income from whatever source derived, accounts receivable, other choices in action of whatever nature and service charges in connection with the operation of the facilities.

Note E - INTERFUND TRANSACTIONS

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds and reported after non-operating revenues or expenses in the enterprise funds.

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) the payments between funds are made.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note E - INTERFUND TRANSACTIONS (continued)

Interfund receivable and payable balances at June 30, 2012, arising from these transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund -		
Special Revenue Fund	\$ 867,886.88	
Special Revenue Fund -		
General Fund		\$ 867,886.88
	<u>\$ 867,886.88</u>	<u>\$ 867,886.88</u>

Note F - RETIREMENT PLANS

Tennessee Consolidated Retirement System -

Defined Benefit Plan Description - Employees of Upper Cumberland Human Resource Agency are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Upper Cumberland Human Resource Agency participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy - Upper Cumberland Human Resource Agency requires employees to contribute 5.0 percent of earnable compensation.

Upper Cumberland Human Resource Agency is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 7.04% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Upper Cumberland Human Resource Agency is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost - For the year ending June 30, 2012, Upper Cumberland Human Resource Agency's annual pension cost of \$316,162 to TCRS was equal to Upper Cumberland Human Resource Agency's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Upper Cumberland Human Resource Agency's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 19 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note F - RETIREMENT PLANS (continued)

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$316,162	100.00%	\$ 0
June 30, 2011	\$338,897	100.00%	0
June 30, 2010	\$296,223	100.00%	0

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 85.72 percent funded. The actuarial accrued liability for benefits was \$2.46 million, and the actuarial value of assets was \$2.11 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.35 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.76 million, and the ratio of the UAAL to the covered payroll was 7.38 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)</u>
July 1, 2011	\$2,111	\$2,463	\$352	85.72%	\$4,762	7.38%
July 1, 2009	\$665	\$1,211	\$547	54.87%	\$3,733	14.64%
July 1, 2007	\$0	\$0	\$0	0.00%	\$0	0.00%

Defined Contribution Plan -

In addition to the TCRS plan, the Agency continues to provide pension benefits for full-time (hired on or before December 31, 2007) and permanent part-time employees who work at least 1,000 hours annually through a defined contribution plan administered by Hartford Life. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 12 months of employment. Any amendments to the defined contribution plan have been approved by the Board of Directors of the Agency. According to the Agency's personnel policies approved by the Board of Directors, the agency contributes 5% of the employee's base salary each month, and the employee contributes at least 5% of the base salary. The employee is allowed to contribute up to federally defined limits. All contributions by the employee are fully vested upon participation in the retirement plan. Employer contributions are vested at a rate of 20% per year.

The payroll for employees covered by the defined contribution plan was \$1,682,582.20. The required contribution of \$84,129.11 represented 5% of covered payroll.

Note G - RISK MANAGEMENT

The Agency participates in the Tennessee Municipal League (TML) Risk Management Pool, for the following risks of loss: commercial general liability, bodily injury, property damage, physical damage, and personal injury liability for vehicle operation, employer's liability and worker's compensation. Worker's compensation is based on previous year's salaries at a predefined rate; however at the end of the policy year (December 31) a worker's compensation audit is conducted. At that time the Agency could be subject to additional payment or a refund of premiums.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note G - RISK MANAGEMENT (continued)

The Agency's participation in the TML Risk Management Pool is similar to purchasing commercial insurance, in that the agreement provides for payment of premiums and does not provide for additional member assessments. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. The Agency carries commercial insurance for employee dishonesty. There were no claims filed against this policy in the past year.

The Agency elected to provide basic health, disability, dental, and life insurance coverage for its employees through a partially self-funded plan administered through Health Cost Solutions and Blue Cross/Blue Shield of Tennessee. The agency's administrative and claims expenditures were approximately \$1,307,283.04.

Note H - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the agency expects such amounts, if any, to be immaterial.

Note I - OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Agency's policies provide an employee who has been employed with the Agency for twenty consecutive years and is 59 ½ continuation of current medical insurance until the age of 65. The agency has completed an actuarial study as of July 1, 2010. The study's information follows:

1) GASB 45 DISCLOSURE REQUIREMENTS - ESTIMATED

A. Annual OPEB Cost and Net OPEB Obligation	7/01/2010- 6/30/2011	7/01/2011- 6/30/2012
1. Annual Required Contribution (ARC)	\$ 57,659.00	\$ 61,114.00
2. Interest on net OPEB Obligation	3,760.00	5,765.00
3. Adjustment to ARC	(4,200.00)	(6,582.00)
4. Annual OPEB Cost (Expense)	\$ 57,219.00	\$ 60,296.00
5. Contribution made (assumed middle of year)*	(7,098.00)	(13,981.00)
6. Increase in net OPEB Obligation	\$ 50,121.00	\$ 46,315.00
7. Net OPEB Obligation (beginning of year)	93,998.00	144,120.00
8. Net OPEB Obligation (end of year)	<u>\$ 144,120.00</u>	<u>\$ 190,435.00</u>

*Contribution made was assumed to equal Expected Benefit Payments.

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending 2011/2012 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2011	\$57,219.00	12.40%	\$144,120.00	\$6,356,194.00	0.90%
6/30/2012	\$60,296.00	23.20%	\$190,435.00	\$6,515,099.00	0.90%

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note I - OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (AAL) ((b-a)/c)
7/1/2008	\$ -	\$ 448,222.00	\$448,222.00	0.00%	\$6,166,237.00	7.30%
7/1/2010	\$ -	\$ 483,906.00	\$483,906.00	0.00%	\$6,356,194.00	7.60%

C. Methods and Assumptions

Interest Rate	4.00%
2008 Medical Trend Rate	9.00%
Ultimate Medical Trend Rate	5.00%
Year Ultimate Medical Trend Rate Reached	2014
Actuarial Cost Method	Entry Age Normal
The remaining amortization period at 06/30/2011	27.16
Annual Payroll Increase	2.50%

2) A BRIEF DESCRIPTION OF THE RETIREE MEDICAL INSURANCE PLANS:

a. Plan Types:	Medical Insurance through Blue Cross Blue Shield of Tennessee
b. Eligibility:	20 years of service and 59.5 years of age All benefits cease when employee is Medicare eligible.
c. Benefit/Cost Sharing:	Employer pays 75% of the medical premium.
d. Spouse Benefit:	Yes, until Medicare eligible or retiree is Medicare eligible.
e. Surviving Spouse Benefit:	None
f. Annual Premiums:	Effective October 1, 2010
<u>Plan</u>	
Individual	\$ 5,212.68
Family	\$14,268.24

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Contribution requirements of the Agency and plan members are determined by the executive committee. Currently, only current benefits payable are being funded under the plans. The Agency currently does not have a trust fund. The Agency is currently working on developing a trust agreement for these benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note J - LINE OF CREDIT

The agency entered into a fifteen month \$2,750,000 line of credit with Bank of Putnam County on March 25, 2011 to provide working capital for the Agency. The line of credit has a fixed interest rate of 6%. The agreement was renewed effective April 5, 2012 monthly for an additional three months. The balance on the line of credit at June 30, 2012 was \$1,816,383.65.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to Financial Statements (continued)

June 30, 2012

Note J - LINE OF CREDIT (continued)

The activity for the line of credit for the year ended June 30, 2012 is as follows:

Balance June 30, 2011 As Previously Reported	Adjustment	Balance June 30, 2011 As Restated	Additions	Reductions	Balance June 30, 2012
\$ 2,113,858.01	\$ 244,456.40	\$ 2,358,314.41	\$ 14,052,360.46	\$ (14,594,291.22)	\$ 1,816,383.65

The balance of the line of credit as previously reported at June 30, 2011 was materially misstated with the difference reported as a reduction of cash. Therefore, the misstatement did not result in a prior period adjustment.

The Agency has pledged as collateral land and buildings located at Indian Mound and Chance residential centers, various vehicles owned by the Agency, accounts and other rights to payment, instruments and chattel paper, general intangibles, documents, government payments and programs, investment property, and deposit accounts.

Subsequent to June 30, 2012, the agreement was renewed for an additional twelve month term ending on July 5, 2013.

Note K - NEW ACCOUNTING AND REPORTING STANDARDS

The GASB has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, required for fiscal period beginning after June 15, 2010. This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types (See Note A). The Agency implemented GASB Statement No. 54 for the year ended June 30, 2012.

Note L - PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2012, a prior period adjustment was made to record the prior year inventory balance of the commodities inventory in the amount of \$277,745.94. The adjustment was made due to the commodities program activity which was previously unrecorded in the Agency's financial statements. Also during 2012, a prior period adjustment was made to reverse expenditures and a corresponding liability recorded in prior years to accumulate the sick pay for employees paid out upon retirement in the amount of \$704,814.06. This amount was reversed since the long-term liability was previously recorded in the fund financial statements. In addition, a prior period adjustment was made during 2012 for a prior year entry which recorded a transfer in the amount of \$164,218.46 from one cash account to another within the general fund. The prior entry increased the fund balance of the general fund by the amount of the transfer.

During the year ended June 30, 2012, prior period adjustments were made to governmental activities net assets to record the net OPEB obligation and compensated absences in the amounts of (\$144,120.00) and (\$431,056.53) respectively.

The government-wide and fund financial statements were restated as follows:

	Government-wide Statements	Fund Financial Statements	
	Governmental Activities	General Fund	Special Revenue Fund
Net assets/fund balance as of June 30, 2011, as previously reported	\$ 3,071,525.77	\$ 21,278.78	
Commodities inventory	277,745.94		\$ 277,745.94
Transfer	(164,218.46)	(164,218.46)	
Compensated absences	\$ 704,814.06	704,814.06	
	<u>(431,056.53)</u>	273,757.53	
Net OPEB obligation	(144,120.00)		
Net assets/fund balance as of June 30, 2011, as restated	<u>\$ 3,314,690.78</u>	<u>\$ 561,874.38</u>	<u>\$ 277,745.94</u>

REQUIRED SUPPLEMENTARY INFORMATION

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Funding Progress

For the Year Ended June 30, 2012

Defined Benefit Plan:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$2,111	\$2,463	\$352	85.72%	\$4,762	7.38%
July 01, 2009	\$665	\$1,211	\$547	54.87%	\$3,733	14.64%
July 01, 2007	\$0	\$0	\$0	0.00%	\$0	0.00%

Other Post-Employment Benefit Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (AAL) ((b-a)/c)
7/1/2008	\$0	\$ 448,222	\$ 448,222	0.00%	\$ 6,166,237	7.30%
7/1/2010	\$0	\$ 483,906	\$ 483,906	0.00%	\$ 6,356,194	7.60%

SUPPLEMENTAL SECTION

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Indirect Costs

Year Ended June 30, 2012

Indirect Cost Pool -	
Salaries	\$ 1,020,081.27
Fringe benefits	334,201.85
Rent	109,244.26
Insurance	95,124.26
Leasing	73,966.35
Supplies	28,494.63
Communications	25,220.94
Policy council and board member	18,260.18
Contracted services	16,270.75
Dues and subscriptions	12,423.87
Janitorial services	12,379.72
Travel	9,806.44
Equipment rental	9,684.00
Printing	6,672.42
Repairs and maintenance	6,133.05
Professional services	4,542.24
Training	3,874.00
Vehicle operations	1,828.91
Advertising	1,412.02
Utilities	726.07
Audit fees	157.80
Other	467.25
Total Indirect Cost Allocations	\$ <u><u>1,790,972.28</u></u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2011 (Receivable)	Receipts	Transfers In (out)	Adjustments	Expenditures	Balance June 30, 2012 (Receivable)
U.S. DEPARTMENT OF AGRICULTURE								
Passed through Tennessee Department of Human Services - Child and Adult Care Food Program	10.558	03-47-64071-00-6	\$ (98,816.17)	\$ 1,253,698.93			\$ 1,253,118.43	\$ (98,235.67)
Passed through Tennessee Department of Agriculture - Emergency Food Assistance Program	10.568	DG-11-34278-00	\$ (37,014.18)	\$ 64,630.00			\$ 27,615.82	
Emergency Food Assistance Program	10.568	20795		31,707.09			55,801.77	\$ (24,094.68)
			\$ (37,014.18)	\$ 96,337.09			\$ 83,417.59	\$ (24,094.68)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
Passed through Tennessee Department of Health - Housing Opportunities for Persons with AIDS	14.241	GG-10-27619-00	\$ (6,685.36)	\$ 6,685.36				
Housing Opportunities for Persons with AIDS	14.241	GG-12-35938-00		52,766.37			\$ 65,499.00	\$ (12,732.63)
			\$ (6,685.36)	\$ 59,451.73			\$ 65,499.00	\$ (12,732.63)
U.S. DEPARTMENT OF JUSTICE								
Passed through Tennessee Commission on Children and Youth - Juvenile Accountability Block Grant	16.523	22698	\$ (23,029.45)	\$ 44,712.28			\$ 21,682.83	
Juvenile Accountability Block Grant	16.523	29051		37,922.72			59,028.30	\$ (21,105.58)
			\$ (23,029.45)	\$ 82,635.00			\$ 80,711.13	\$ (21,105.58)
U.S. DEPARTMENT OF LABOR								
Passed through Tennessee Department of Labor/Workforce Development - Career Center/Employment Security	17.207	GG-10-30624-00	\$ (26,328.92)	\$ 26,328.92				
Career Center/Employment Security	17.207	GG-12-37023-00		110,759.83			\$ 128,371.00	\$ (17,611.17)
			\$ (26,328.92)	\$ 137,088.75			\$ 128,371.00	\$ (17,611.17)
Senior Community Service Employment - Title V	17.235	GG-10-29007-00	\$ (5,406.00)	\$ 5,406.00				
Senior Community Service Employment - Title V	17.235	GG-12-35102-00		145,330.00			\$ 148,350.00	\$ (3,020.00)
			\$ (5,406.00)	\$ 150,736.00			\$ 148,350.00	\$ (3,020.00)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2012

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2011 (Receivable)	Receipts	Transfers In (out)	Adjustments	Expenditures	Balance June 30, 2012 (Receivable)
U.S. DEPARTMENT OF LABOR								
Passed through Tennessee Department of Labor/Workforce Development -								
Title One - Adult	17.258	LW07F111ADULT11	\$ 20,294.67	\$ 70,532.00			\$ 90,826.67	
Title One - Adult	17.258	LW07P111ADULT12		51,330.00			51,330.00	
Title One - Adult	17.258	LW07F121ADULT12		340,500.00			369,187.13	(28,687.13)
Title One - Statewide	17.258	LW40P101SSSWA11	(26,190.83)	26,190.83				
			\$ (5,896.16)	\$ 488,552.83			\$ 511,343.80	\$ (28,687.13)
 Title One - Youth	 17.259	 LW07P101YOUTH11	 \$ (46,092.15)	 \$ 182,135.00			 \$ 136,042.85	
Title One - Youth	17.259	LW07P111YOUTH12		589,000.00			614,474.44	\$ (25,474.44)
Title One - Statewide	17.259	LW40P102SSSWA11	(13,200.00)	13,200.00				
Title One - Statewide	17.259	LW40F112SSSWA12		91,977.17			99,220.00	(7,242.83)
			\$ (59,292.15)	\$ 876,312.17			\$ 849,737.29	\$ (32,717.27)
 WIA Title One - State Wide Incentive	 17.267	 LW40P09INCNTV10	 \$ (3,309.09)	 \$ 30,582.64			 \$ 27,273.55	
 WIA Title One - State Wide NEG	 17.277	 LW40F111DWNeg11	 \$ (6,728.52)	 \$ 152,293.00			 \$ 145,564.48	
 WIA Title One	 17.278	 LW40P103MNSWA11	 \$ (1,930.50)	 \$ 1,930.50				
WIA Title One	17.278	LW07F111DSLWK11	(37,719.56)	154,104.00			\$ 116,384.44	
WIA Title One	17.278	LW07F121DSLWK12		247,000.00			259,724.19	\$ (12,724.19)
WIA Title One	17.278	LW07P111DSLWK12		91,862.00			91,862.00	
WIA Title One	17.278	LW40F111IWRSP11	(29,150.00)	29,150.00				
WIA Title One	17.278	LW40F122IWRSP12		23,551.00			30,000.00	(6,449.00)
WIA Title One	17.278	LW40F113SSSWA11	(16,183.30)	90,551.08			74,367.78	
WIA Title One	17.278	LW40F111NCSWA11	(31,668.04)	40,000.00			8,331.96	
WIA Title One	17.278	LW40F114NCSWA11		1,107.68			2,551.04	(1,443.36)
			\$ (116,651.40)	\$ 679,256.26			\$ 583,221.41	\$ (20,616.55)
 Passed through Senior Services of America -								
Senior Community Service Employment	17.235	AD-16177-07-60-A-24	\$ (71,483.00)	\$ 314,743.00			\$ 304,293.00	\$ (61,033.00)
SSAI Project 298 - ARRA	17.235		(5,507.00)	5,507.00				
			\$ (76,990.00)	\$ 320,250.00			\$ 304,293.00	\$ (61,033.00)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2012

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2011 (Receivable)	Receipts	Transfers In (out)	Adjustments	Expenditures	Balance June 30, 2012 (Receivable)
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Tennessee Department of Transportation - Section 5309 Discretionary Capital	20.500	Z-07-037832-00	\$ (4,842.89)		\$ 4,842.89			
Job Access	20.516	GG-10-32176-00	\$ (37,830.74)	\$ 74,748.94			\$ 36,918.20	
Job Access	20.516	GG-11-34332-00		113,758.49			116,921.00	\$ (3,162.51)
Job Access	20.516	GG-13-32953-00					25,717.65	(25,717.65)
			\$ (37,830.74)	\$ 188,507.43			\$ 179,556.85	\$ (28,880.16)
New Freedom	20.521	Z-09-215666-00	\$ (13,067.83)	\$ 30,324.13			\$ 17,256.30	
New Freedom	20.521	GG-11-33820-00		7,148.14			32,318.24	\$ (25,170.10)
New Freedom	20.521	GG-11-34160-00		53,197.96			53,197.96	
			\$ (13,067.83)	\$ 90,670.23			\$ 102,772.50	\$ (25,170.10)
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	20.509	GG-12-36430-00		\$ 1,351,728.45			\$ 1,421,577.69	\$ (69,849.24)
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	20.509	GG-13-33443-00					838,912.30	(838,912.30)
Section 5309 Discretionary Capital	20.509	GG-09-30080-00		15,699.99	\$ (4,304.79)		23,361.58	(11,966.38)
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	20.509	GG-10-33152-00	\$ (169,126.58)	169,126.58				
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	20.509	GG-10-31545-00	(5,831.21)	21,983.61			16,152.40	
Public Transportation for Non Urbanized Areas (Section 18) - Aging	20.509	GG-11-33465-00	(99,060.60)	99,060.60				
Passed through Upper Cumberland Development District - Public Transportation for Non Urbanized Areas (Section 18) - Aging	20.509	GA-9150	(18,768.00)	75,072.00			75,072.00	(18,768.00)
			\$ (292,786.39)	\$ 1,732,671.23	\$ (4,304.79)		\$ 2,375,075.97	\$ (939,495.92)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2012

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2011 (Receivable)	Receipts	Transfers In (out)	Adjustments	Expenditures	Balance June 30, 2012 (Receivable)
U.S. DEPARTMENT OF ENERGY								
Passed through Tennessee Department of Human Services -								
Weatherization Assistance for Low-Income Persons	81.042		\$ 11,347.00		\$ (11,347.00)			
Weatherization Assistance for Low-Income Persons	81.042	Z-11-000417-00	(256,447.50)	\$ 256,447.50				
Weatherization Assistance for Low-Income Persons	81.042	Z-12-000417-00		382,881.64	11,347.00		\$ 524,547.93	\$ (130,319.29)
Weatherization Assistance for Low-Income Persons ARRA	81.042	Z-11-000435-00	(179,248.43)	179,248.43				
			<u>\$ (424,348.93)</u>	<u>\$ 818,577.57</u>	<u>\$ - 0 -</u>		<u>\$ 524,547.93</u>	<u>\$ (130,319.29)</u>
U.S. DEPARTMENT OF EDUCATION								
Passed through Tennessee Department of Human Services -								
Career Center/Rehabilitation Services	84.126		<u>\$ (7,551.74)</u>	<u>\$ 23,106.32</u>			<u>\$ 18,954.55</u>	<u>\$ (3,399.97)</u>
Passed through Tennessee Alliance for Children and Families -								
Title I	84.010		\$ (24,488.54)	\$ 56,445.62		\$ 3,530.82	\$ 70,746.84	\$ (35,258.94)
Title I - ARRA	84.010			2,745.18			2,745.18	
			<u>\$ (24,488.54)</u>	<u>\$ 59,190.80</u>		<u>\$ 3,530.82</u>	<u>\$ 73,492.02</u>	<u>\$ (35,258.94)</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Head Start	93.600	G-04-CH-0437-20	\$ (26,115.58)	\$ 26,115.58				
Head Start	93.600	G-04-CH-0437-21		294,514.18			\$ 341,311.00	\$ (46,796.82)
			<u>\$ (26,115.58)</u>	<u>\$ 320,629.76</u>			<u>\$ 341,311.00</u>	<u>\$ (46,796.82)</u>
Passed through Upper Cumberland Development District -								
Special Programs for the Aging Title III, Part C								
Nutrition Services - Congregate	93.045	GA-9151	\$ (154,216.27)	\$ 397,966.27			\$ 325,000.00	\$ (81,250.00)
Special Programs for the Aging Title III, Part C								
Nutrition Services - Home Delivered	93.045	GA-9152		340,220.76			394,047.00	(53,826.24)
			<u>\$ (154,216.27)</u>	<u>\$ 738,187.03</u>			<u>\$ 719,047.00</u>	<u>\$ (135,076.24)</u>
Aging Homemaker	93.052	GA-9159	<u>\$ (4,655.20)</u>	<u>\$ 23,312.80</u>			<u>\$ 22,724.00</u>	<u>\$ (4,066.40)</u>
Passed through Tennessee Department of Children's Services -								
Teen Outreach Program (TOP)	93.092	32048					\$ 9,003.48	\$ (9,003.48)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2012

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2011 (Receivable)	Receipts	Transfers In (out)	Adjustments	Expenditures	Balance June 30, 2012 (Receivable)
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)								
Passed through Tennessee Department of Human Services - TANF Subsidized Employment	93.558	Z-11-000066-00	\$ (17,153.80)	\$ 17,153.89		\$ (0.09)		
Low-Income Home Energy Assistance	93.568	Z-11-000268-00	\$ (76,267.55)	\$ 76,267.55				
Low-Income Home Energy Assistance	93.568	Z-12-000218-00		3,012,694.53			\$ 3,180,400.68	\$ (167,706.15)
Low-Income Home Energy Assistance	93.568	Z-12-000269-00		608,690.91			608,690.91	
Low-Income Home Energy Assistance	93.568	GG-11-34346-00	(183,090.78)	183,490.78			400.00	
			\$ (259,358.33)	\$ 3,881,143.77			\$ 3,789,491.59	\$ (167,706.15)
Community Services Block Grant	93.569	Z-09-217922-00	\$ (145,641.31)	\$ 145,641.31				
Community Services Block Grant	93.569	Z-12-000169-00		156,683.24			\$ 155,313.74	\$ 1,369.50
Community Services Block Grant	93.569	Z-12-000119-01		395,443.33			558,563.87	(163,120.54)
Community Services Block Grant	93.569		17,974.00					17,974.00
			\$ (127,667.31)	\$ 697,767.88			\$ 713,877.61	\$ (143,777.04)
Social Services Block Grant - Homemaker Services	93.667	GG-10-28788-01	\$ (32,520.30)	\$ 32,520.30				
Social Services Block Grant - Homemaker Services	93.667	GG-12-35855-00		55,822.67			\$ 55,822.67	
Social Services Block Grant - Homemaker Services	93.667	GG-12-37060-01		157,166.41			208,767.34	\$ (51,600.93)
Social Services Block Grant - Homemaker Services	93.667		2,744.00					2,744.00
			\$ (29,776.30)	\$ 245,509.38			\$ 264,590.01	\$ (48,856.93)
Passed through United Way - Ryan White	93.917		\$ (11,868.71)	\$ 38,944.83			\$ 42,640.16	\$ (15,564.04)
U.S. DEPARTMENT OF HOMELAND SECURITY								
Passed through United Way - Emergency Food and Shelter	97.024			\$ 33,075.08			\$ 33,075.08	
			\$ (1,901,875.96)	\$ 13,235,642.40	\$ 538.10	\$ 3,530.73	\$ 13,391,060.43	\$ (2,053,225.16)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Expenditures of State Awards

Year Ended June 30, 2012

<u>Program Name</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2011 (Receivable)</u>	<u>Receipts</u>	<u>Transfers In (out)</u>	<u>Expenditures</u>	<u>Balance June 30, 2012 (Receivable)</u>
TENNESSEE DEPARTMENT OF PROBATION AND PAROLE						
Community Corrections	GG-11-31901-01	\$ (57,726.72)	\$ 465,179.86		\$ 453,719.15	\$ (46,266.01)
TENNESSEE DEPARTMENT OF CHILDREN'S SERVICES						
Community Intervention - Juvenile Services	GG-11-32113-00	\$ (8,961.75)	\$ 8,961.75			
Community Intervention - Juvenile Services	GG-12-35219-00		140,131.76		\$ 185,122.28	\$ (44,990.52)
Court Appointed Special Advocates		(3,750.00)	3,750.00			
Court Appointed Special Advocates	25171		29,112.00		30,000.00	(888.00)
Special Education	SPED12023		1,978.90		1,978.90	
Special Education	SPED12022		1,995.70		1,995.70	
Special Education			1,999.00		1,999.00	
		\$ (12,711.75)	\$ 187,929.11		\$ 221,095.88	\$ (45,878.52)
TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION						
Drug Court Planning Grant	12256	\$ (18,837.13)	\$ 18,837.13			
Drug Court Planning Grant	15028		34,507.51		\$ 47,146.26	\$ (12,638.75)
		\$ (18,837.13)	\$ 53,344.64		\$ 47,146.26	\$ (12,638.75)
TENNESSEE DEPARTMENT OF TRANSPORTATION						
Offender Network Program	GG-12-37305-00				\$ 788.14	\$ (788.14)
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	GG-12-36430-00		\$ 924,663.00		924,663.00	
Public Transportation for Non Urbanized Areas (Section 18) - CARTS	GG-13-33443-00				381,373.41	(381,373.41)
Section 5309 Discretionary Capital	GG-09-30080-00		1,962.50	\$ (538.10)	2,920.20	(1,495.80)
New Freedom	Z-09-215666-00	\$ (6,533.92)	15,162.07		8,628.15	
New Freedom	GG-11-33820-00		893.52		4,039.78	(3,146.26)
New Freedom	GG-11-34160-00		6,126.04		6,126.04	
Job Access	GG-10-32176-00	(17,256.15)	34,359.74		17,103.59	
Job Access	GG-11-34332-00		56,879.26		58,460.50	(1,581.24)
Job Access	GG-13-32953-00				12,858.83	(12,858.83)
		\$ (23,790.07)	\$ 1,040,046.13	\$ (538.10)	\$ 1,416,961.64	\$ (401,243.68)
TENNESSEE DEPARTMENT OF VETERANS AFFAIRS						
Veterans Affairs			\$ 1,318.92		\$ 1,978.38	\$ (659.46)
UPPER CUMBERLAND DEVELOPMENT DISTRICT						
Options for Community Living		\$ (93,157.06)	\$ 442,564.84		\$ 416,209.20	(66,801.42)
		\$ (206,222.73)	\$ 2,190,383.50	\$ (538.10)	\$ 2,557,110.51	\$ (573,487.84)

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Performance Based Financial Assistance

Year Ended June 30, 2012

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2011 (Receivable)</u>	<u>Receipts</u>	<u>Amount Earned</u>	<u>Balance June 30, 2012 (Receivable)</u>
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Tennessee Department of Human Services - Head Start	10.558	03-47-64194-00-1		\$ 20,948.80	\$ 20,948.80	
Passed through Tennessee Department of Education - Indian Mound	10.558		\$ (3,438.35)	19,871.39	19,773.42	\$ (3,340.38)
Chance	10.558		(3,438.35)	19,871.39	19,773.42	(3,340.38)
Youth Impact Center	10.558		(3,438.34)	19,871.38	19,773.42	(3,340.38)
Passed through Upper Cumberland Development District - Nutrition	10.558	GA-9151	(12,500.00)	50,001.00	50,001.00	(12,500.00)
			<u>\$ (22,815.04)</u>	<u>\$ 130,563.96</u>	<u>\$ 130,270.06</u>	<u>\$ (22,521.14)</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

**Notes to the Schedules of Expenditures of Federal and State Awards and
Performance Based Financial Assistance**

Year Ended June 30, 2012

Note A - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards, and performance based financial assistance include the grant activity of the Upper Cumberland Human Resource Agency under programs of the federal and state governments for the year ended June 30, 2012. The information in these schedules are presented in accordance with the requirements of U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedules present only a selected portion of the operations of the Upper Cumberland Human Resource Agency, these are not intended to and do not present the financial position, changes in net assets, or cash flows of the Upper Cumberland Human Resource Agency.

The receivable balance accrued June 30, 2011, represents grant funds earned during the prior period, but not received prior to the end of that period. The deferred revenue balance at June 30, 2011, represents grant funds received during the prior period, but not earned prior to the end of that period.

Cash receipts represents the actual cash received from the grantor agency during the current period.

Expenditures represent current period expenses charged to the grant as well as current period revenues recognized from the grant, recorded on the accrual basis of accounting.

The receivable balance accrued June 30, 2012, represents grant revenue earned which was not received from the grantor agency during the current period. The deferred revenue balance at June 30, 2012, represents grant funds received from the grantor agency during the current period which was not earned prior to the end of that period.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Noncash Assistance

Year Ended June 30, 2012

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2011 (Receivable)</u>	<u>Receipts</u>	<u>Price Adjustments</u>	<u>Loss Adjustments</u>	<u>Expenditures</u>	<u>Balance June 30, 2012 (Receivable)</u>
U.S. DEPARTMENT OF AGRICULTURE Passed through Tennessee Department of Agriculture - Emergency Food Assistance Program (Food Commodities)	10.569	DG-10-29782-00	<u>\$ 277,745.94</u>	<u>\$ 441,231.19</u>	<u>\$ (21,619.82)</u>	<u>\$ (10,627.64)</u>	<u>\$ 442,334.68</u>	<u>\$ 244,394.99</u>

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Notes to the Schedule of Noncash Assistance

Year Ended June 30, 2012

Note A - BASIS OF PRESENTATION

The accompanying schedule of noncash assistance includes the grant activity of the Upper Cumberland Human Resource Agency under commodity programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Upper Cumberland Human Resource Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Upper Cumberland Human Resource Agency.

The balance at June 30, 2011, represents the beginning inventory of commodities held by the Agency at the end of the prior period.

Receipts represent commodities received from the grantor Agency during the current period.

Federal expenditures represent commodities distributed by the Agency during the current period.

The balance at June 30, 2012, represents the ending inventory of commodities held by the Agency at the end of the current period.

COMPLIANCE AND INTERNAL CONTROL SECTION



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

The Board of Directors
Upper Cumberland Human Resource Agency

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Upper Cumberland Human Resource Agency, as of and for the year ended June 30, 2012 which collectively comprise the Upper Cumberland Human Resource Agency's basic financial statements and have issued our report thereon dated February 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Upper Cumberland Human Resource Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Upper Cumberland Human Resource Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Upper Cumberland Human Resource Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Cumberland Human Resource Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2012-1, 2012-2, 2012-3, 2012-4, 2012-5, 2012-6, 2012-7, 2012-8, 2012-9, 2012-10, 2012-11, 2012-12, 2012-13, 2012-14, 2012-15]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Cumberland Human Resource Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Upper Cumberland Human Resource Agency in a separate letter dated February 19, 2013.

Upper Cumberland Human Resource Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Upper Cumberland Human Resource Agency's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
February 19, 2013



JOBE, HASTINGS & ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Upper Cumberland Human Resource Agency

Compliance

We have audited the Upper Cumberland Human Resource Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Upper Cumberland Human Resource Agency's major federal programs for the year ended June 30, 2012. The Upper Cumberland Human Resource Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Upper Cumberland Human Resource Agency's management. Our responsibility is to express an opinion on the Upper Cumberland Human Resource Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Upper Cumberland Human Resource Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Upper Cumberland Human Resource Agency's compliance with those requirements.

In our opinion, the Upper Cumberland Human Resource Agency, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Upper Cumberland Human Resource Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Upper Cumberland Human Resource Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Upper Cumberland Human Resource Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
February 19, 2013

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs

June 30, 2012

A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Upper Cumberland Human Resource Agency.
2. Fifteen significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards*. The fifteen deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Upper Cumberland Human Resource Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major federal award programs reported in the *Independent Auditor's Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for the Upper Cumberland Human Resource Agency expresses an unqualified opinion on all major federal programs.
6. No audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 were disclosed during the audit.
7. The programs tested as major programs were; the Emergency Food Assistance Cluster CFDA No. 10.568 and 10.569; the Workforce Investment Act Cluster CFDA No. 17.258, 17.259, and 17.278; Transit Services Programs Cluster CFDA No. 20.516 and 20.521; Weatherization Assistance for Low-Income Persons CFDA No. 81.042; Aging Cluster CFDA No. 93.045; Low-Income Home Energy Assistance CFDA No. 93.568; Community Services Block Grant CFDA No. 93.569; and Head Start CFDA No. 93.600.
8. The threshold used for distinguishing between Type A and B programs was \$418,018.
9. The Upper Cumberland Human Resource Agency did not qualify as a low-risk auditee.

B - FINDINGS - FINANCIAL STATEMENT AUDIT

2012-1 Cash Reconciliations

Condition: Cash reconciliations were not performed for a number of the Agency's cash accounts. Some reconciling items on reconciliations that were performed did not represent actual transactions.

Criteria: Controls should be in place over cash to prevent the misstatement or misappropriation of cash.

Cause of Condition: The Agency chose not to perform reconciliations for some cash accounts. The Agency has old general ledger cash account balances that have not been individually adjusted to accurate balances. In addition, a line of credit which is tied to the operating cash has been combined with cash balances on the general ledger making it difficult to reconcile to a specific account balance.

Effect: The cash and line of credit balances were materially misstated. Cash could be misappropriated without it being discovered by management in a timely manner.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-1 Cash Reconciliations (continued)

Recommendation: Old cash account balances should be adjusted; transactions should be recorded for the line of credit in a separate account. Reconciliations should be performed on all cash accounts. Reconciling items should only be made for actual timing differences between when transactions are recorded in the general ledger and when they clear in the bank account. The bank reconciliations should be reviewed for accuracy and completeness on a timely basis. The review should include tests of mechanical accuracy and tracing items on the reconciliations to the relevant source documents. The composition of reconciling items should be determined and appropriate follow-up should occur. Any journal entries deemed necessary as a result should be recorded.

Views of Responsible Officials and Planned Corrective Actions: We concur. Old cash balances have already been adjusted and will be archived out of the accounting system. While no official reconciliations were being performed on county depository accounts, Agency personnel was responsible for making daily deposits and withdrawing monthly the total of all daily deposits. In the future a formal reconciliation will be performed on all cash accounts. All reconciling items will be for actual timing differences when transactions are recorded in the ledger and when they clear the bank. All bank reconciliations will be reviewed for completeness and accuracy.

2012-2 Unrecorded Cash Accounts

Condition: The balance and activity of some cash accounts were not recorded in the accounting system. One material unrecorded account was reported in the financial statements.

Criteria: The accounting system should be complete by including the accounts and activity of all assets of the Agency.

Cause of Condition: The Agency chose not to record three accounts in the accounting system.

Effect: The financial statements could be materially misstated by not completely recording all account balances or transactions.

Recommendation: All cash balances and their activity should be recorded in the accounting system.

Views of Responsible Officials and Planned Corrective Actions: We concur. The material account not recorded in the ledger is the money the Agency's programs pay to fund the supplemental retirement benefit. The Agency showed the supplemental retirement in the financial statements as cash and assets held in custody for others. The Agency has recorded in the ledger the supplement retirement benefit and the balance will be updated monthly. All other cash accounts in the Agency's name will be added to the ledger and updated monthly.

2012-3 Monitoring of Collateral on Depository Accounts

Condition: The Agency did not have procedures in place to monitor the collateral held by the bank pledged to secure the cash accounts of the Agency to ensure the collateral was adequate to comply with State regulations.

Criteria: The Tennessee Code Annotated Title 9-4-105 requires Tennessee governmental entities to have "required collateral" whose "market value is equal to one hundred five percent (105%) of the value of the state deposit secured thereby, less so much of such amount is protected by the federal deposit insurance corporation."

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-3 Monitoring of Collateral on Depository Accounts (continued)

Cause of Condition: The Agency does not have a system in place to monitor the market value of the collateral pledged by the bank on a systematic basis.

Effect: The Agency could be in violation of State law by not having the State required collateral for cash accounts.

Recommendation: Management should monitor the market value of the bank's pledged collateral each month when bank statements and the pledged collateral report are received from the bank. A request should be made of the bank to adjust collateral amounts as needed.

Views of Responsible Officials and Planned Corrective Actions: We concur. A procedure has been developed to monitor collateral on a daily basis.

2012-4 Line of Credit

Condition: The Agency's line of credit is included as part of the cash balance in the Agency's accounting system. In addition, the line of credit balance recorded in the financial statement was materially misstated.

Criteria: General ledger balance sheet accounts should represent the balance of an actual asset or liability.

Cause of Condition: The Agency's line of credit is tied to the operating cash account of the Agency. Transfers for payment or disbursements are made on a daily basis to maintain a \$300,000 balance in the operating cash account. As a result, the Agency did not maintain a separate general ledger account of the line of credit. In addition, it does not appear the Agency receives a monthly statement from the bank for the line of credit. Therefore, the Agency did not reconcile the line of credit to an actual balance.

Effect: The balance of the operating cash account and the line of credit were materially misstated between the asset and liability.

Recommendation: Create a separate general ledger account for the line of credit and record the transfers between the line of credit and operating cash account so that each account's balance can be reconciled to the respective statements. In addition, the Agency should request that the bank provide a monthly statement for the line of credit that the Agency can use to reconcile to the general ledger account.

Views of Responsible Officials and Planned Corrective Actions: We concur. The Agency was showing the line of credit as a reconciling item on the bank reconciliation but based upon the auditor's recommendation we will start recording the line of credit transactions.

2012-5 Old General Ledger Cash Accounts

Condition: The Agency had general ledger cash account balances that did not represent actual cash accounts.

Criteria: The accounting system should record the activity and balances of the Agency. Controls should be in place to ensure that the accounting system reflects actual account balances and activity of the Agency.

Cause of Condition: The Agency has old cash account balances in the accounting system that have not been adjusted to reflect actual activity of the Agency. The old balances are combined with accounts currently used to account for cash activity on the Agency's cash reconciliations (see finding 2012-1).

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-5 Old General Ledger Cash Accounts (continued)

Effect: The balances in these accounts do not separately represent actual cash.

Recommendation: Old account balances that do not represent actual cash accounts should be adjusted so that the only cash accounts in the accounting system represent actual cash balances.

Views of Responsible Officials and Planned Corrective Actions: We concur. Journal entries have already been recorded to remove the old cash balances. The accounting software will be updated and old accounts will be archived.

2012-6 Revenue Recognition

Condition: A journal entry was made in the prior year to transfer money from one bank account to another both of which were in the general fund. The Agency recorded this transfer as an increase to revenue in the prior year. A reversing entry was made by the Agency in the current year to the same revenue account to reverse the effects of the prior year transaction because the transfer of cash was never actually done. In addition, the Agency recorded a transfer from the general fund to the enterprise fund as a reduction of general fund revenues and as non-operating revenue in the enterprise fund.

Criteria: Transactions within a fund do not result in an increase or decrease to fund balance. Transfers between funds that are non-exchange transactions do not result in revenue, but rather as transfers reported in both funds.

Cause of Condition: The Agency received Board approval in the prior year to transfer money from the retiree account to the general account in order for the general fund to not report a negative fund balance. Since the retiree account is not recorded in the accounting system, the transaction was treated as if the cash was transferred from an external source.

Effect: Fund balance and revenue were materially misstated in the prior year for the general fund and revenue was materially misstated in the current year for both funds.

Recommendation: Any transactions made within the same fund should not result in an increase or decrease to the fund balance of that fund. Transfers made to other funds should clearly be distinguished as such.

Views of Responsible Officials and Planned Corrective Actions: We concur. The handling of this transaction was discussed with prior auditor and approved by the board. Any further transactions dealing with revenue recognition will be handled in accordance with the auditor's recommendation.

2012-7 Intra-Agency Activity

Condition: Revenue and expenses were recorded for intra-agency activity leading to both revenue and expense being overstated.

Criteria: Transactions within a fund between programs should not result in income or expense. Transactions between funds of the entity should not be recorded as an exchange transaction if the activity is not normally provided by that fund to outside parties at established rates.

Cause of Condition: Services were performed by one program for another program within the Agency. In order to more accurately show the activity of each program the Agency recorded revenue and expenses for these transactions.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-7 Intra-Agency Activity (continued)

Effect: As a result revenues and expenditures for the Agency were misstated, with no effect on fund balance.

Recommendation: If intra-agency activity is recorded for management or cost allocation purposes, the transactions should be recorded in a way that makes elimination of the activity in the financial statements possible.

Views of Responsible Officials and Planned Corrective Actions: We concur. When intra-agency activity is recorded, the transactions will be recorded in a way that makes elimination of the activity in the financial statements possible.

2012-8 Unrecorded Debt and Capital Assets

Condition: Three capital leases and two associated vehicles, and a \$300,000 note payable were not recorded in the government-wide financial statements in prior years.

Criteria: All obligations and assets of the entity which do not use current financial resources should be reported in the government-wide financial statements.

Cause of Condition: The capital leases and two of the associated assets did not appear to have been recorded since there was no cash disbursement for the purchase of the vehicles or cash receipts from the leases. The note payable appears to have been recorded as revenue in the year received.

Effect: The financial statements were misstated in prior years by the amount of the outstanding debt balances and fixed assets not recorded.

Recommendation: Information for capital purchases or improvements should be given to an individual responsible for maintaining the depreciation schedule, so that the information can be appropriately used to prepare the government-wide financial statements. Likewise, any new lease or loan agreements signed by the Agency should be given to an employee responsible for maintaining the debt schedule for the Agency.

Views of Responsible Officials and Planned Corrective Actions: We concur. In the future all lease and loan documents will be given to the finance director and a determination of the type of debt will be determined. All transactions associated with these leases and loans will be properly recorded in the financial records.

2012-9 GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions

Condition: The financial statements did not implement the fund balance reporting requirements of Governmental Accounting Standards Board Statement No. 54 (GASB 54) as required for the period ending June 30, 2011.

Criteria: The implementation of GASB 54 was for periods beginning after June 15, 2010.

Cause of Condition: Fund balance classifications on the Governmental Funds Balance Sheet and related disclosures in the notes to the financial statements did not follow the requirements of GASB 54.

Effect: Fund balance was not presented in accordance with generally accepted accounting principles.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-9 GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions (continued)

Recommendation: Ensure Agency personnel responsible for financial reporting receive continuing education to stay informed about governmental accounting reporting standards.

Views of Responsible Officials and Planned Corrective Actions: We concur. In the future, the Agency will comply with GASB 54 and financial reporting personnel will obtain continuing education to stay informed about governmental accounting reporting standards.

2012-10 Accrued Sick Pay

Condition: The account balance of the cash account set aside to pay sick pay when employees retire is shown as a liability instead of the balance of sick pay that is probable to be paid out to retirees.

Criteria: If sick pay is eligible to be paid upon retirement, an evaluation of the amount probable to be paid upon retirement should be made, and a corresponding accrual recorded on the government-wide financial statements.

Cause of Condition: The Agency made a policy at some point in the past to expense and set aside 1% of payroll in a separate bank account to be used to pay for the sick pay retirement benefit. The cash account was not recorded in the accounting system; however, the cash and a corresponding liability were added for financial statement presentation.

Effect: The liability recorded for the sick pay retirement benefit did not correspond to any evaluation performed by management of the underlying liability of the Agency.

Recommendation: A periodic evaluation of the probable sick pay liability should be performed and the liability adjusted to reflect a more accurate estimate of the liability. The cash set aside to pay sick pay should be shown as assigned fund balance instead of a liability.

Views of Responsible Officials and Planned Corrective Actions: We concur. The Agency had an actuarial study completed by an outside organization, however, they failed to include the actual value of sick pay. The study only took into account medical insurance. A yearly evaluation of the sick pay liability will be performed and an adjustment will be made to current liabilities. The cash set aside to pay sick pay will be shown as an assigned fund balance instead of a liability.

2012-11 Net Other Postemployment Benefits Other than Pensions (OPEB) Obligation

Condition: The Net Other Postemployment Benefits Other than Pensions (OPEB) obligation and current year expense per an actuarial valuation was not recorded for the prior or current years.

Criteria: GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* requires employers that provide OPEB plans to: recognize the cost of benefits in periods when the related services are received by the employer; provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-11 Net Other Postemployment Benefits Other than Pensions (OPEB) Obligation (continued)

Cause of Condition: There appears to be some confusion regarding what is covered by the Agency's OPEB plan. The Agency's OPEB plan is for postretirement medical insurance. However, management appears to have included the Agency's retiree sick benefit in their assumptions and in the prior financial statement disclosures. Further, it appears to be management's understanding that the retiree cash account represents OPEB plan assets.

Effect: The OPEB obligation has not been presented in the financial statements in accordance with GASB 45.

Recommendation: Ensure Agency personnel responsible for financial reporting receive continuing education to stay informed about governmental accounting reporting standards.

Views of Responsible Officials and Planned Corrective Actions: We concur. The OPEB obligation was recorded as part of the liability, "assets held in custody for others". In the future the OPEB obligation will be presented in the financial statement in accordance with GASB 45.

2012-12 Commodities

Condition: The activity and ending inventory of the commodities program were not recorded in the accounting system or reported in the financial statements.

Criteria: GASB 33 *Accounting and Financial Reporting for Nonexchange Transactions* provides reporting guidance for Government-mandated nonexchange transactions. Government-mandated nonexchange transactions are defined in the standard as "transactions, which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose." Further guidance in a Q&A for the implementation of GASB 33 states that "the fair value of donated commodities should be recognized as revenue in the period when all eligibility requirements are met (typically, the period when the commodities are received)."

Cause of Condition: The Agency did not record the activity or ending inventory of the non-cash commodities since it was the Agency's view that it does not have full rights to the commodities inventory and therefore, should not recognize it as an asset of the Agency.

Effect: The financial statements were materially misstated for the omission of the activity of commodities received, distributed, and the ending balance of commodities inventory on hand.

Recommendation: All grant expenditures, revenue, and ending balances whether in the form of cash or non-cash items or the result of exchange or nonexchange transactions should be recorded in the financial statements.

Views of Responsible Officials and Planned Corrective Actions: We concur. It was the Agency's view that the commodities inventory should not be recognized as an asset of the Agency due to contractual terms, stating that if the commodities program ended at any given time, all inventory had to be returned to the Department of Agriculture. A supplemental schedule (Non-cash Assistance) was prepared and included in the audit. After discussions with the auditors, it was determined that the revenue, expenditures, and inventory should be recorded in the ledgers and financial statements. In the future, revenues, expenditures, and inventory will be properly recorded in the general ledger and financial statements.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-13 Unreconciled Accrued Liability Account Balances

Condition: A number of payroll accrual accounts appear to have old or incorrect amounts posted at year end and did not reconcile to underlying supporting documentation. Several accrual accounts had debit balances.

Criteria: Liabilities recorded should reflect all items for which the Agency has an obligation. Account balances reported should have underlying documentation supporting the balance.

Cause of Condition: It does not appear that the payroll accrual accounts had been analyzed or reconciled.

Effect: The liabilities of the Agency could be misstated.

Recommendation: Balance sheet account balances should be periodically analyzed and reconciled to underlying supporting documentation to ensure that the balance sheet accounts are not misstated.

Views of Responsible Officials and Planned Corrective Actions: We concur. The accrued liability account balances have been reviewed and journal entries have been recorded to reflect the corrected balances. The financial statements reflect the corrective action taken. All accrued liability account balances will be monitored monthly to ensure proper balances are maintained.

2012-14 Year End Close of the Accounting System

Condition: The Agency does not perform a year end close of the accounting system each year. Each year new accounts are created and the old accounts are left in the system with their previous balances. The old balance sheet accounts in most cases are moved to the new corresponding accounts through a journal entry. However, the fund balance and income statement accounts are left in the system.

Criteria: The accounting system should provide for accurate information to be generated that contains only the activity of the current fiscal year.

Cause of Condition: The Agency does not perform a closing of its accounting system each fiscal year.

Effect: The general ledger contains numerous account balances that do not represent current year activity.

Recommendation: A fiscal year end close of the accounting system should be performed each year so that only balances representing the fiscal year being examined are included.

Views of Responsible Officials and Planned Corrective Actions: We concur. A fiscal year end close of the accounting system will be performed each year.

2012-15 Working Trial Balance

Condition: The Agency did not have a clear audit trail reconciling the working trial balances provided by the Agency to the fund information used to prepare the financial statements. There was not a clear audit trail for how the accounts on the client provided working trial balance formed the amounts presented in the financial statements. In addition, a number of account balances did not agree to the underlying accounting records.

Criteria: The trial balance should be prepared in such a way as to minimize human error, preferably generated directly from the accounting system. Financial statement balances should be supported with a clear audit trail to the underlying financial records.

UPPER CUMBERLAND HUMAN RESOURCE AGENCY

Schedule of Audit Findings and Questioned Costs (continued)

June 30, 2012

2012-15 Working Trial Balance (continued)

Cause of Condition: The Agency does not perform a year end close in the accounting system. In addition, the Agency uses self balancing sets of accounts for “programs.” Groups of programs form the funds of the Agency. The grouping of programs into funds cannot be performed within the accounting system.

Effect: The working trial balance contained errors of which could be material to the financial statements.

Recommendation: Perform a closing of the accounting system. Develop procedures to ensure the account balances from the accounting system do not differ from those provided on the trial balance. If the current accounting system cannot meet the accounting needs, the Agency might consider other accounting software. Develop a clear audit trail of how amounts in the working trial balance are grouped to form the amounts for each fund.

Views of Responsible Officials and Planned Corrective Actions: We concur. A fiscal year end close of the accounting system will be performed. Procedures will be developed to ensure the account balances from the accounting system agree to those provided on the trial balance.

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None